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Alban Moura

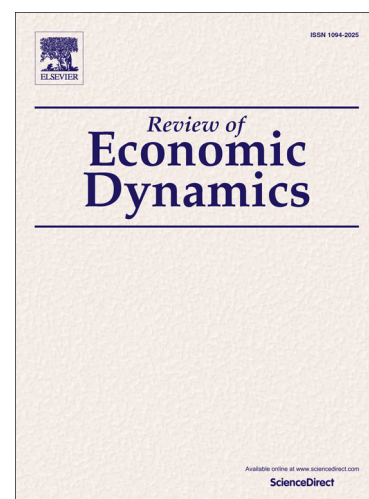
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INVESTMENT SHOCKS, STICKY PRICES, AND THE ENDOGENOUS RELATIVE PRICE OF INVESTMENT

ALBAN MOURA

ABSTRACT. This paper estimates a two-sector DSGE model of the U.S. economy with two key ingredients: (i) an explicit distinction between shocks to investment demand and shocks to investment supply; (ii) sector-specific pricing frictions. According to the estimation results, investment demand shocks are more important than investment supply shocks in driving aggregate fluctuations. Furthermore, sticky investment prices are important to capture the effects of sector-specific technology shocks, in particular recessionary investment supply shocks. Finally, the model suggests that the relative price of investment provides a poor indicator of relative technology in short to medium horizons.

JEL Codes: C11, E30.

Keywords: investment shocks, sticky prices, relative price of investment, multisector DSGE model.

Banque centrale du Luxembourg, Département Economie et Recherche, 2 boulevard Royal, L-2983 Luxembourg (e-mail: alban.moura@bcl.lu). I am grateful to Matthias Doepke (the editor) and two anonymous referees for very helpful suggestions, and to Patrick Fève for his continuous support. I also thank Thomas Chaney, Paolo Guarda, Christian Hellwig, Luca Marchiori, Franck Portier, and workshop participants at TSE and the BCL for constructive comments. The views in this paper are solely the responsibility of the author and should not be reported as representing the views of the BCL or the Eurosystem.

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